

FINANCIAL STATEMENTS AND REPORT OF
INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS
NEOSHO MEMORIAL REGIONAL MEDICAL CENTER
DECEMBER 31, 2009 AND 2008

CONTENTS

	Page
MANAGEMENT'S DISCUSSION AND ANALYSIS	1
REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS	6
FINANCIAL STATEMENTS	
BALANCE SHEETS	7
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS	8
STATEMENTS OF CASH FLOWS	9
NOTES TO FINANCIAL STATEMENTS	11
SUPPLEMENTAL INFORMATION	
REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS ON SUPPLEMENTAL INFORMATION	24
ACCOUNTS RECEIVABLE	25
PATIENT SERVICE REVENUE	26
OPERATING EXPENSES BY FUNCTIONAL DIVISION	28

NEOSHO MEMORIAL REGIONAL MEDICAL CENTER
MANAGEMENT'S DISCUSSION AND ANALYSIS
Years ended December 31, 2009 and 2008

Our discussion and analysis of the financial performance of Neosho Memorial Regional Medical Center provides a narrative overview of the Medical Center's financial activities for the years ended December 31, 2009 and 2008. Please read it in conjunction with the accompanying basic financial statements.

Financial highlights

The Medical Center's net assets increased by \$1,709,689 or 7.2 percent in 2009 and increased by \$2,710,189 or 12.8 percent in 2008.

The Medical Center reported operating income of \$2,257,317 in 2009, \$2,510,129 in 2008, and \$2,847,461 in 2007.

Using these financial statements

The Medical Center's financial statements consist of three statements - a Balance Sheet; a Statement of Revenues, Expenses and Changes in Net Assets; and a Statement of Cash Flows. These financial statements and related notes provide information about the activities of the Medical Center, and resources held by or for the benefit of the Medical Center.

One of the most important questions asked about the Medical Center's finances is, "Is the Medical Center as a whole better or worse off as a result of the year's activities?" The Balance Sheet and the Statement of Revenues, Expenses and Changes in Net Assets report information about the Medical Center's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. Revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Medical Center's net assets and changes in them. The Medical Center's net assets - the difference between assets and liabilities may be thought of as one way to measure the financial health, or financial position. Over time, increases or decreases in the Medical Center's net assets are one indicator of whether its financial health is improving or deteriorating. Consideration must also be given to other nonfinancial indicators, such as changes in the Medical Center's patient base and measures of the quality of service it provides to the community, as well as local economic factors to assess the overall health of the Medical Center.

The final required statement is the Statement of Cash Flows. This statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities. It provides answers to such questions as "Where did cash come from?", "What was cash used for?", and "What was the change in cash balance during the reporting period?"

NEOSHO MEMORIAL REGIONAL MEDICAL CENTER
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
Years ended December 31, 2009 and 2008

Assets, liabilities and net assets

Table 1 below summarizes the Medical Center's assets, liabilities and net assets for the latest three calendar years.

Table 1: Assets, Liabilities and Net Assets

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Assets			
Current assets	\$13,838,262	\$12,713,017	\$11,002,987
Capital assets, net	27,875,512	26,093,847	17,599,576
Other noncurrent assets	<u>5,552,264</u>	<u>7,961,561</u>	<u>15,649,359</u>
Total assets	<u>47,266,038</u>	<u>46,768,425</u>	<u>44,251,922</u>
Current liabilities	3,580,410	4,260,786	3,953,434
Long-term liabilities	<u>18,142,326</u>	<u>18,674,026</u>	<u>19,175,064</u>
Total liabilities	<u>21,722,736</u>	<u>22,934,812</u>	<u>23,128,498</u>
Total net assets	<u>\$25,543,302</u>	<u>\$23,833,613</u>	<u>\$21,123,424</u>

Accounts receivable and cash are the two most significant components of current assets. Net accounts receivable at December 31, 2009, 2008 and 2007, were \$5,335,027, \$5,237,120, and \$4,788,108 representing 57, 62, and 62 days of net patient service revenue in net accounts receivable. The second major component of current assets is cash. Cash increased by \$600,280 in 2009 after increasing by \$1,047,770 in 2008 and decreasing by \$1,003,707 in 2007. The Medical Center generated cash of \$3,863,712, \$3,760,697, and \$3,708,665 from operations in 2009, 2008, and 2007. These cash flows are utilized to fund the Medical Center's debt service requirements and capital acquisitions that are not funded by borrowed funds deposited in a project account and held by our trustee. Cash is also affected by the timing of our funding of funded depreciation, or assets limited as to use designated for capital acquisitions. These balances increased by \$211,104 in 2009 as compared with 2008 after decreasing by \$849,731 in 2008 as compared with 2007. The accompanying cash flow statement provides additional details as to the change in cash balances for 2009 and 2008.

The Medical Center began a major capital improvement program in 2006 which is still ongoing at December 31, 2009. Amounts expended for capital acquisitions were \$4,922,826, \$9,867,269, and \$9,050,284, respectively, during 2009, 2008, and 2007. Capital acquisitions are funded from a combination of available cash and proceeds from the \$20,000,000 in long-term bonds issued in September 2006. The Medical Center completed a major portion of the new addition and renovation in 2009 and is now focused on specific projects updating the original hospital structure.

NEOSHO MEMORIAL REGIONAL MEDICAL CENTER
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
Years ended December 31, 2009 and 2008

As noted above, assets limited as to use, internally designated for capital acquisitions, increased by \$211,104 in 2009 after decreasing by \$849,731 in 2008. When funds are available, the Medical Center transfers funds to funded depreciation. These funds are then disbursed for the acquisition of capital assets. Funds held by trustees under bond indenture agreements are being used to fund the hospital renovation, and to meet the bond reserve and debt service reserve fund requirements. These funds have decreased in 2009 and 2008 as payouts are made for the construction and renovation project.

Net assets or equity, has increased by 20.9 percent from 2007 to 2009. This increase is primarily from the generation of strong operating results which are discussed below in more detail.

Operating results and changes in net assets

The Medical Center's net assets increased by \$1,709,689 or 7.2 percent in 2009 and \$2,710,189 or 12.8 percent in 2008, as shown in Table 2.

Table 2: Operating Results and Changes in Net Assets

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Operating revenues			
Net patient service revenue	\$34,443,218	\$31,138,274	\$28,333,539
Other operating revenue	<u>623,326</u>	<u>532,567</u>	<u>493,935</u>
Total operating revenues	<u>35,066,544</u>	<u>31,670,841</u>	<u>28,827,474</u>
Operating expenses			
Salaries and benefits	17,170,454	15,634,385	14,014,360
Supplies and other	12,922,548	11,915,703	10,520,468
Depreciation and amortization	<u>2,716,225</u>	<u>1,610,624</u>	<u>1,445,185</u>
Total operating expenses	<u>32,809,227</u>	<u>29,160,712</u>	<u>25,980,013</u>
Operating income	2,257,317	2,510,129	2,847,461
Nonoperating revenues (expenses)	(669,948)	155,105	328,615
Capital grants and contributions	<u>122,320</u>	<u>44,955</u>	<u>106,563</u>
Increase in net assets	<u>\$ 1,709,689</u>	<u>\$ 2,710,189</u>	<u>\$ 3,282,639</u>

The first component of the overall change in the Medical Center's net assets is its operating income - generally the difference between net patient service revenues and other operating revenues and the expenses incurred to perform those services. The Medical Center's margin has steadily declined from 9.9 percent in 2007 to 7.9 percent in 2008 and 6.4 percent in 2009. The decrease in margin is a result of operating expenses increasing at a faster rate than operating revenues. The Medical Center's net patient service revenue in 2009 increased by 10.6 percent over 2008; increased by 9.9 percent in 2008 over 2007; and increased by 6.5 percent in 2007 over 2006. The change in net patient service revenue is affected by changes in charges to patients, payment rates by third-party payors, patient volumes, the type of services provided, and other special payments.

NEOSHO MEMORIAL REGIONAL MEDICAL CENTER
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
Years ended December 31, 2009 and 2008

The Medical Center experienced a 12.0 percent decrease in inpatient discharges in 2009 as compared to 2008, and a 0.3 decrease in 2008 as compared with 2007. As a critical access hospital, we are limited to having twenty-five inpatients admitted to our Medical Center at any one time. We operate our Medical Center near this limit often and do not anticipate being able to grow our inpatient services in the future. We are focused on growing our outpatient services which is consistent with national trends that see patients being treated increasingly in an outpatient setting. We expect that this trend will continue in our service area.

Beginning on July 1, 2005, the Medical Center met the eligibility requirements for the State of Kansas Medicaid DSH program and was awarded payments which are disbursed quarterly over the State's fiscal year. Net patient service revenues recognized from this program were \$820,480, \$967,902 and \$801,541 in 2009, 2008, and 2007, respectively.

Other significant items which affect net patient service revenues are the level of charity care and bad debts incurred by the Medical Center. These amounts are deducted from gross revenues along with third-party contractual adjustments to arrive at net patient service revenues. For the years ended 2009, 2008, and 2007, the Medical Center's charity care and provision for bad debts were as follows:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Provision for bad debts	\$4,517,260	\$4,351,496	\$3,595,921
Charity care	<u>808,054</u>	<u>1,052,545</u>	<u>877,887</u>
	<u>\$5,325,314</u>	<u>\$5,404,041</u>	<u>\$4,473,808</u>

These amounts represent 6.7 percent, 7.7 percent, and 7.4 percent of gross patient service revenues for the respective years ended 2009, 2008, and 2007. These percentages are affected by the level of uninsured or underinsured patients seeking care in our facility.

Employee salaries and wages increased by \$1,257,936 or 9.8 percent in 2009 and increased by \$1,482,739 or 13.1 percent during 2008. The change in salaries is driven by two factors which are the change in full-time equivalent employees (FTEs) and the average increase in employee hourly wages. The Medical Center employed an average of 294 FTEs during 2009, a 23.0 FTE increase over 2008. FTEs for 2008 increased by 25.0 from 2007.

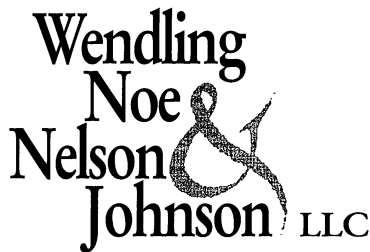
Employee benefit costs as a percentage of salary and wage expense was 21.8 percent, 21.8 percent, and 23.4 percent in 2009, 2008, and 2007, respectively. These costs have remained relatively consistent as a percentage of gross salaries and wages during the past three years. The one component of this expense that has the most variability from year to year is the cost of providing health insurance coverage to our employees, however, the volatility of this expense has lessened during the past three years.

NEOSHO MEMORIAL REGIONAL MEDICAL CENTER
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
Years ended December 31, 2009 and 2008

Supplies and other expenses increased by \$1,006,845 in 2009 after increasing by \$1,395,235 and \$101,184 in 2008 and 2007. In 2009, the Medical Center experienced a \$500,000 increase in medical supply costs, a \$300,000 increase in the cost of maintenance contracts, a \$165,000 increase in surgery contract services, and a \$80,000 increase in health information systems contract services. These cost increases were offset partially by a \$100,000 reduction in the cost of small equipment and a \$300,000 decrease in contract nursing expenses. In 2008, the Medical Center experienced a \$385,000 increase in the cost of small equipment which are expensed under the Medical Center's capitalization policy. We also experienced a \$240,000 increase in rental costs of a mobile MRI which was located on-site seven days a week beginning in late 2007, and a \$124,000 increase in electricity costs which is due to various items including the additional space added to our building and the related construction of that space.

Depreciation and interest expenses combined increased by \$1,839,069 in 2009 as compared to 2008. This increase was due to the completion of a major portion of our project which resulted in the Medical Center starting depreciation on the newly constructed areas. This completion also resulted in the interest being recognized as expense rather than being capitalized.

This financial report is designed to provide a general overview of the Medical Center's finances and to discuss the significant changes in our financial statements. If you have any questions about the report or need additional financial information, contact the Administration Office at Neosho Memorial Regional Medical Center, 629 S. Plummer, Chanute, Kansas 66720.



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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Trustees
Neosho Memorial Regional Medical Center

We have audited the accompanying balance sheets of Neosho Memorial Regional Medical Center, component unit of Neosho County, Kansas, as of December 31, 2009 and 2008, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Medical Center's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the Kansas Municipal Audit Guide. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Medical Center's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Neosho Memorial Regional Medical Center as of December 31, 2009 and 2008, and the results of its operations, changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Management's discussion and analysis on pages 1 through 5 is not a required part of the basic financial statements but is required supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Wendling Noe Nelson & Johnson LLC

Topeka, Kansas
April 1, 2010

FINANCIAL STATEMENTS

NEOSHO MEMORIAL REGIONAL MEDICAL CENTER

BALANCE SHEETS

December 31,

ASSETS

	<u>2009</u>	<u>2008</u>
CURRENT ASSETS		
Cash and cash equivalents (Notes A4 and H)	\$ 4,674,866	\$ 4,074,586
Assets limited as to use (Notes A7, D and H)	829,708	1,282,015
Patient accounts receivable, net of estimated uncollectibles of \$1,718,140 in 2009 and \$2,614,073 in 2008	5,335,027	5,237,120
Inventories (Note A6)	989,292	878,197
Prepaid expenses	239,191	335,881
Other	27,359	22,478
Estimated third-party payor settlements (Note C)	<u>1,742,819</u>	<u>882,740</u>
Total current assets	<u>13,838,262</u>	<u>12,713,017</u>
ASSETS LIMITED AS TO USE (Notes A7, D and H)		
Internally designated for capital acquisitions	1,211,806	1,000,702
Under bond indenture agreements - held by trustee	<u>4,806,274</u>	<u>7,855,178</u>
	6,018,080	8,855,880
Less amount required to meet current obligations	<u>829,708</u>	<u>1,282,015</u>
	<u>5,188,372</u>	<u>7,573,865</u>
CAPITAL ASSETS (Notes A8, A9, and B)		
Land	167,618	167,618
Depreciable capital assets	47,692,857	44,871,782
Less accumulated depreciation and amortization	<u>(19,984,963)</u>	<u>(18,945,553)</u>
Capital assets, net	<u>27,875,512</u>	<u>26,093,847</u>
OTHER ASSETS		
Real estate investments, at cost	58,363	58,363
Deferred financing costs (Note A9)	<u>305,529</u>	<u>329,333</u>
	<u>363,892</u>	<u>387,696</u>
	<u>\$47,266,038</u>	<u>\$46,768,425</u>

The accompanying notes are an integral part of these statements.

LIABILITIES AND NET ASSETS

	<u>2009</u>	<u>2008</u>
CURRENT LIABILITIES		
Current maturities of long-term debt and capital leases (Note E)	\$ 530,000	\$ 500,000
Accounts payable and accrued expenses	1,028,807	985,256
Construction costs payable	246,320	817,871
Salaries, wages, and payroll taxes payable	362,356	683,519
Accrued vacation payable	1,112,767	967,713
Interest payable	<u>300,160</u>	<u>306,427</u>
Total current liabilities	<u>3,580,410</u>	<u>4,260,786</u>
LONG-TERM DEBT AND CAPITAL LEASES, net of current maturities (Note E)	<u>18,142,326</u>	<u>18,674,026</u>
NET ASSETS (Note A11)		
Invested in capital assets net of related debt	11,984,321	10,267,624
Restricted for debt service	2,025,139	1,957,787
Unrestricted	<u>11,533,842</u>	<u>11,608,202</u>
Total net assets	<u>25,543,302</u>	<u>23,833,613</u>
	<u>\$47,266,038</u>	<u>\$46,768,425</u>

NEOSHO MEMORIAL REGIONAL MEDICAL CENTER
STATEMENTS OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
Year ended December 31,

	<u>2009</u>	<u>2008</u>
Operating revenues		
Net patient service revenue (Note C)	\$34,443,218	\$31,138,274
Other	<u>623,326</u>	<u>532,567</u>
Total operating revenues	<u>35,066,544</u>	<u>31,670,841</u>
Operating expenses		
Salaries and wages	14,096,309	12,838,913
Employee benefits	3,074,145	2,795,472
Supplies and other expenses	12,922,548	11,915,703
Depreciation and amortization	<u>2,716,225</u>	<u>1,610,624</u>
Total operating expenses	<u>32,809,227</u>	<u>29,160,712</u>
Operating income	<u>2,257,317</u>	<u>2,510,129</u>
Nonoperating revenues (expenses)		
Investment income	112,577	212,936
Interest expense	(788,097)	(54,629)
Noncapital grants and contributions	8,006	30,776
Other	<u>(2,434)</u>	<u>(33,978)</u>
Total nonoperating revenues (expenses)	<u>(669,948)</u>	<u>155,105</u>
Excess of revenues over expenses before capital grants and contributions	1,587,369	2,665,234
Capital grants and contributions	<u>122,320</u>	<u>44,955</u>
Increase in net assets	1,709,689	2,710,189
Net assets beginning of year	<u>23,833,613</u>	<u>21,123,424</u>
Net assets end of year	<u>\$25,543,302</u>	<u>\$23,833,613</u>

The accompanying notes are an integral part of these statements.

NEOSHO MEMORIAL REGIONAL MEDICAL CENTER

STATEMENTS OF CASH FLOWS

Year ended December 31,

	<u>2009</u>	<u>2008</u>
Cash flows from operating activities		
Receipts from and on behalf of patients	\$33,485,232	\$30,220,325
Payments to or on behalf of employees	(17,346,563)	(15,302,258)
Payments for supplies and services	(12,893,402)	(11,688,656)
Other receipts and payments	<u>618,445</u>	<u>531,286</u>
Net cash provided by operating activities	<u>3,863,712</u>	<u>3,760,697</u>
Cash flows from noncapital financing activities		
Noncapital grants and contributions	<u>8,006</u>	<u>30,776</u>
Net cash provided by noncapital financing activities	<u>8,006</u>	<u>30,776</u>
Cash flows from capital and related financing activities		
Purchase of property and equipment	(4,922,826)	(9,867,269)
Proceeds from sale of property and equipment		4,700
Interest paid on capital related debt	(920,622)	(940,571)
Capital grants and contributions	122,320	44,955
Principal payments on long-term debt obligations	<u>(500,687)</u>	<u>(485,000)</u>
Net cash used for capital and related financing activities	<u>(6,221,815)</u>	<u>(11,243,185)</u>
Cash flows from investing activities		
Decrease in assets limited as to use	2,771,835	7,990,851
Interest received	<u>178,542</u>	<u>508,631</u>
Net cash provided by investing activities	<u>2,950,377</u>	<u>8,499,482</u>
Net increase in cash and cash equivalents	600,280	1,047,770
Cash and cash equivalents at beginning of year	<u>4,074,586</u>	<u>3,026,816</u>
Cash and cash equivalents at end of year	<u>\$ 4,674,866</u>	<u>\$ 4,074,586</u>

The accompanying notes are an integral part of these statements.

NEOSHO MEMORIAL REGIONAL MEDICAL CENTER

STATEMENTS OF CASH FLOWS - CONTINUED

Year ended December 31,

	<u>2009</u>	<u>2008</u>
Reconciliation of operating income to net cash provided by operating activities		
Operating income	\$ 2,257,317	\$ 2,510,129
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation and amortization	2,716,225	1,610,624
Provision for bad debts	4,517,260	4,351,496
(Increase) decrease in		
Accounts receivable	(4,615,167)	(4,800,508)
Estimated third-party payor settlements	(860,079)	(468,937)
Inventories	(111,095)	(46,137)
Prepaid expenses	96,690	(131,745)
Other current assets	(4,881)	(1,281)
Increase (decrease) in		
Accounts payable and accrued expenses	43,551	404,929
Salaries and payroll taxes payable	(321,163)	157,339
Accrued vacation	<u>145,054</u>	<u>174,788</u>
Net cash provided by operating activities	<u>\$ 3,863,712</u>	<u>\$ 3,760,697</u>

The accompanying notes are an integral part of these statements.

NEOSHO MEMORIAL REGIONAL MEDICAL CENTER

NOTES TO FINANCIAL STATEMENTS

December 31, 2009 and 2008

NOTE A - DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Reporting entity

Neosho Memorial Regional Medical Center is owned by Neosho County, Kansas, and operated by the Board of Trustees of Neosho Memorial Regional Medical Center, a seven-member governing board appointed by the governing body of the County. The Medical Center, which was organized in 1950, is a not-for-profit general hospital located in Chanute, Kansas. The Medical Center can sue and be sued, and can buy, sell, or lease real property. Bond issuances must be approved by the County. The Medical Center is a component unit of the County.

The Medical Center has entered into a management agreement with QHR, LLC (QHR) for the operation of the Medical Center. Under the agreement, QHR agrees to manage the daily operations of the Medical Center and to provide the Medical Center with the services of a chief executive officer and a chief financial officer, both of which are employed by QHR. The Medical Center's Board of Trustees retains all authority over the business, policies, operations and assets of the Medical Center.

2. Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

3. Basis of accounting

The Medical Center uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus. Pursuant to Governmental Accounting Standards Board (GASB) Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Accounting," the Medical Center has implemented all GASB pronouncements, and Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins issued on or before November 30, 1989, except those that conflict with GASB pronouncements and has elected not to apply FASB Statements and Interpretations issued after November 30, 1989.

4. Cash and cash equivalents

Cash and cash equivalents include all cash and short-term investments, excluding any such amounts included in assets limited as to use.

5. Allowance for doubtful accounts

The Medical Center provides for accounts receivable that could become uncollectible in the future by establishing an allowance to reduce the carrying value of such receivables to their estimated net realizable value. The Medical Center estimates this allowance based on the aging of its accounts receivable and applying specific reserve factors for each type of payor.

NEOSHO MEMORIAL REGIONAL MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2009 and 2008

NOTE A - DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT
ACCOUNTING POLICIES - Continued

6. Inventories

Inventories are stated at the lower of cost or market with cost determined on the first-in, first-out method.

7. Assets limited as to use

Assets limited as to use include assets set aside by the Board of Trustees for future capital improvements over which the Board retains control and may, at its discretion, subsequently use for other purposes, and assets held by a trustee under a bond indenture agreement.

8. Capital assets

Capital assets, including assets recorded as capital leases, are stated at cost. Depreciation and amortization of capital assets are provided on the straight-line method over the estimated useful lives of the assets which are substantially in conformity with useful lives established by the American Hospital Association.

The costs of maintenance and repairs are charged to operating expenses as incurred. The costs of significant additions, renewals, and betterments to depreciable properties are capitalized and depreciated over the remaining or extended estimated useful lives of the item or the properties. Gains and losses on disposition of capital assets are included in nonoperating revenues and expenses.

9. Cost of borrowing

Interest costs (including amortization of deferred financing costs and bond premium), incurred on borrowed funds during the period of construction of capital assets are capitalized as a component of the cost of acquiring those assets. Costs incurred in connection with the issuance of long-term debt (deferred financing costs) are amortized using the interest method over the term of the related debt.

10. Investments and investment income

Investments in debt securities are reported at fair value. Interest and gains and losses, both realized and unrealized, on investments in debt securities are included in nonoperating revenue when earned.

11. Net assets

Net assets of the Medical Center are classified in three components. "Net assets invested in capital assets net of related debt" consist of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. "Restricted net assets" are noncapital net assets that must be used for a particular purpose, as specified by creditors, grantors, or

NEOSHO MEMORIAL REGIONAL MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2009 and 2008

NOTE A - DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT
ACCOUNTING POLICIES - Continued

contributors external to the Medical Center, including amounts deposited with trustees as required by revenue bond indentures. "Unrestricted net assets" are remaining net assets that do not meet the definition of "invested in capital assets net of related debt" or "restricted."

12. Operating revenues and expenses

The Medical Center's statement of revenues, expenses and changes in net assets distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services, the Medical Center's principal activity. Nonexchange revenues, including grants and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

13. Grants and contributions

From time to time, the Medical Center receives grants and contributions from individuals and private organizations. Revenues from grants and contributions are recognized when all eligibility requirements, including time requirements are met. Grants and contributions may be restricted for specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenues. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses.

14. Charity care

The Medical Center provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Medical Center does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. The amount of charity care charges foregone is disclosed in Note C.

15. Income taxes

The Medical Center is exempt from federal income taxes pursuant to Section 115 of the Internal Revenue Code.

16. Reclassifications

Certain reclassifications have been made to the 2008 financial statements to conform with the current year presentation. These reclassifications had no impact on reported operating earnings or the change in net assets.

NEOSHO MEMORIAL REGIONAL MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2009 and 2008

NOTE B - CAPITAL ASSETS

Capital asset additions, retirements and balances are as follows:

	Balance December 31, 2008	Transfers and additions	Retirements	Balance December 31, 2009
Land	\$ 167,618	\$ -	\$ -	\$ 167,618
Land improvements	651,155	713,384		1,364,539
Buildings	9,332,233	4,823,664	42,696	14,113,201
Fixed equipment	4,705,912	12,750,467	13,146	17,443,233
Major movable equipment	<u>13,651,297</u>	<u>1,770,746</u>	<u>1,630,152</u>	<u>13,791,891</u>
Totals at historical cost	<u>28,508,215</u>	<u>20,058,261</u>	<u>1,685,994</u>	<u>46,880,482</u>
Less accumulated depreciation and amortization				
Land improvements	396,641	63,879		460,520
Buildings	5,719,772	537,211	42,696	6,214,287
Fixed equipment	3,240,187	880,485	3,967	4,116,705
Major movable equipment	<u>9,588,953</u>	<u>1,234,650</u>	<u>1,630,152</u>	<u>9,193,451</u>
Total accumulated depreciation	<u>18,945,553</u>	<u>2,716,225</u>	<u>1,676,815</u>	<u>19,984,963</u>
	9,562,662	17,342,036	9,179	26,895,519
Construction in progress and minor equipment	<u>16,531,185</u>	<u>(15,551,192)</u>		<u>979,993</u>
Capital assets, net	<u>\$26,093,847</u>	<u>\$ 1,790,844</u>	<u>\$ 9,179</u>	<u>\$27,875,512</u>
	Balance December 31, 2007	Transfers and additions	Retirements	Balance December 31, 2008
Land	\$ 167,618	\$ -	\$ -	\$ 167,618
Land improvements	651,155			651,155
Buildings	8,266,371	1,112,938	47,076	9,332,233
Fixed equipment	4,966,554	5,780	266,422	4,705,912
Major movable equipment	<u>12,470,293</u>	<u>1,349,690</u>	<u>168,686</u>	<u>13,651,297</u>
Totals at historical cost	<u>26,521,991</u>	<u>2,468,408</u>	<u>482,184</u>	<u>28,508,215</u>
Less accumulated depreciation and amortization				
Land improvements	373,710	22,931		396,641
Building	5,419,706	327,299	27,233	5,719,772
Fixed equipment	3,290,611	195,554	245,978	3,240,187
Major movable equipment	<u>8,694,993</u>	<u>1,064,840</u>	<u>170,880</u>	<u>9,588,953</u>
Total accumulated depreciation	<u>17,779,020</u>	<u>1,610,624</u>	<u>444,091</u>	<u>18,945,553</u>
	8,742,971	857,784	38,093	9,562,662
Construction in progress and minor equipment	<u>8,856,605</u>	<u>7,674,580</u>		<u>16,531,185</u>
Capital assets, net	<u>\$17,599,576</u>	<u>\$8,532,364</u>	<u>\$ 38,093</u>	<u>\$26,093,847</u>

NEOSHO MEMORIAL REGIONAL MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2009 and 2008

NOTE B - CAPITAL ASSETS - Continued

At December 31, 2009, the Medical Center has outstanding construction contract commitments of approximately \$246,000 that relate to the hospital building addition and renovation project.

NOTE C - REIMBURSEMENT PROGRAMS

The Medical Center has agreements with third-party payors that provide for payments to the Medical Center at amounts different from its established charge rates. The amounts reported on the balance sheet as estimated third-party payor settlements consist of the estimated differences between the contractual amounts for providing covered services and the interim payments received for those services. A summary of the payment arrangements with major third-party payors follows:

Medicare - The Medical Center is a critical access hospital for purposes of the Medicare program and is paid for most services rendered to Medicare beneficiaries under various cost reimbursement methodologies. Ambulance and physician services are prospectively paid based on their respective fee schedules. The Medical Center is paid for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Medical Center and audits or reviews thereof by the Medicare fiscal intermediary. The Medical Center's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization. The Medical Center's Medicare cost reports have been audited or reviewed by the Medicare fiscal intermediary through December 31, 2007.

Medicaid - Prior to October 5, 2007, inpatient acute care services rendered to all Medicaid program beneficiaries were paid at prospectively determined rates per discharge. These rates varied according to a patient classification system that was based on clinical, diagnostic, and other factors. All other services rendered to Medicaid beneficiaries were paid at prospective rates determined on either a per diem or a fee-for-service basis. Acute care services rendered to Medicaid beneficiaries, other than those covered under HMO plans, after October 4, 2007, are paid under provisions applicable to critical access hospitals. Payments to the Medical Center under the critical access hospital provisions are based on cost reimbursement methodologies used by the Medicare program. Final settlement with the Medicaid program is based on a cost report submitted and settled upon by the Medicare program.

Blue Cross and Blue Shield - All services rendered to patients who are insured by Blue Cross-Blue Shield are paid on the basis of prospectively determined rates per discharge or discounts from established charges.

NEOSHO MEMORIAL REGIONAL MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2009 and 2008

NOTE C - REIMBURSEMENT PROGRAMS - Continued

A summary of gross and net patient service revenue is as follows:

	<u>2009</u>	<u>2008</u>
Gross patient service revenue	\$79,969,616	\$69,732,928
Deductions from patient service revenue		
Third-party contractual adjustments	40,641,295	33,251,029
Medicaid DSH payments	(820,480)	(967,902)
Other discounts and allowances	380,269	907,486
Charity care	808,054	1,052,545
Provision for bad debts	<u>4,517,260</u>	<u>4,351,496</u>
Net patient service revenue	<u>\$34,443,218</u>	<u>\$31,138,274</u>

Revenue from the Medicare and Medicaid programs accounted for approximately 42 percent and 7 percent, respectively, of the Medical Center's net patient service revenue during 2009, and 47 percent and 7 percent, respectively, of the Medical Center's net patient service revenue during 2008. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates could change by a material amount in the near term.

NOTE D - ASSETS LIMITED AS TO USE

Internally designated

The Medical Center's Board of Trustees has designated certain investments to be used for future capital improvements. These assets may be used for other purposes by action of the Board of Trustees. These assets consist of the following:

	<u>2009</u>	<u>2008</u>
Interest bearing checking	<u>\$1,211,806</u>	<u>\$1,000,702</u>

Under bond indenture agreement - held by trustee

Assets limited as to use by a bond indenture agreement are held by a trustee and are stated at fair value. These assets are related to the 2006 revenue bond issues (Note E) and consist of the following:

	<u>2009</u>	<u>2008</u>
Principal and interest sinking funds	\$ 583,405	\$ 464,145
Bond reserve account	1,437,446	1,493,443
Project account	2,781,135	5,883,294
Accrued interest receivable	<u>4,288</u>	<u>14,296</u>
	<u>\$4,806,274</u>	<u>\$7,855,178</u>

NEOSHO MEMORIAL REGIONAL MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2009 and 2008

NOTE D - ASSETS LIMITED AS TO USE - Continued

Assets are invested by the trustee as follows:

	<u>2009</u>	<u>2008</u>
Cash and money market funds	\$3,385,792	\$6,383,732
U.S. Treasury or other		
Government agency obligations		
at fair value	1,416,194	1,457,150
Accrued interest receivable	<u>4,288</u>	<u>14,296</u>
	<u>\$4,806,274</u>	<u>\$7,855,178</u>

NOTE E - LONG-TERM DEBT AND CAPITAL LEASES

Long-term debt and capital lease obligations are summarized as follows:

	<u>Outstanding balance</u>	
	<u>2009</u>	<u>2008</u>
5.05% - 5.15% Neosho County, Kansas Hospital Refunding Revenue Bonds, Series 2006 A (Neosho Memorial Regional Medical Center); issued on September 1, 2006, in the original amount of \$10,000,000 term bonds due September 1, 2026 and September 31, 2031, with mandatory annual redemptions beginning September 1, 2023	\$10,000,000	\$10,000,000
3.95% - 5% Neosho County, Kansas Hospital Revenue Bonds, Series 2006 B (Neosho Memorial Regional Medical Center); issued on September 1, 2006, in the original amount of \$10,000,000 term bonds due serially through September 1, 2018, and term bonds due September 1, 2022, with mandatory annual redemptions beginning September 1, 2019	8,570,000	9,040,000
Capital lease obligation with current interest rate of 2.25% collateralized by leased equipment with an amortized cost of \$0 at December 31, 2009	<u>89,326</u>	<u>120,013</u>
	18,659,326	19,160,013
Unamortized bond premium	<u>13,000</u>	<u>14,013</u>
	18,672,326	19,174,026
Less current maturities	<u>530,000</u>	<u>500,000</u>
Long-term obligations net of current portion	<u>\$18,142,326</u>	<u>\$18,674,026</u>

NEOSHO MEMORIAL REGIONAL MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2009 and 2008

NOTE E - LONG-TERM DEBT AND CAPITAL LEASES - Continued

The following is a summary of changes in long-term debt and capital lease obligations:

	<u>Capital lease obligations</u>	<u>Hospital revenue bonds</u>	<u>Total long-term obligations</u>
Outstanding at January 1, 2008	\$150,013	\$19,495,000	\$19,645,013
Principal payments	<u>(30,000)</u>	<u>(455,000)</u>	<u>(485,000)</u>
Outstanding at December 31, 2008	120,013	19,040,000	19,160,013
Principal payments	<u>(30,687)</u>	<u>(470,000)</u>	<u>(500,687)</u>
Outstanding at December 31, 2009	<u>\$ 89,326</u>	<u>\$18,570,000</u>	<u>\$18,659,326</u>

On September 1, 2006, the County issued \$20,000,000 in Hospital Revenue Bonds, Series 2006 A and B. The net proceeds of the 2006 Series A bonds, along with other available funds of the Medical Center, were used to refund the \$10,000,000 of Series 2005 Hospital Revenue Bonds issued in December 2005. The net proceeds of the 2006 Series B bonds, along with the net proceeds of the Series 2005 bonds, have been deposited into an escrow account and are being used to fund the renovation and addition to the current hospital structure.

Under the terms of the 2006 bond indenture, the Medical Center is required to maintain certain deposits with a trustee. Such deposits are for the repayment of principal and interest as they come due as well as for the maintenance of required bond reserve accounts. These amounts are included with assets limited as to use in the financial statements. The indenture agreement also includes certain restrictive covenants relating to the acquisition and disposition of property, incurrence of additional indebtedness, and level of fees and rates charged.

The Medical Center has also entered into an agreement to sell equipment to a bank and subsequently lease the equipment back over a period of ten years. The transaction has been recorded as a sale-leaseback and reflected as a capital lease in these financial statements. The lease interest rate is adjusted quarterly to 1 percent above the rate the Medical Center receives on funds deposited with the bank.

Scheduled annual debt service requirements on long-term debt are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 500,000	\$ 900,480	\$ 1,400,480
2011	520,000	880,230	1,400,230
2012	540,000	858,910	1,398,910
2013	560,000	836,500	1,396,500
2014	590,000	812,980	1,402,980
2015 to 2019	3,405,000	3,656,270	7,061,270
2020 to 2024	4,305,000	2,759,300	7,064,300
2025 to 2029	5,525,000	1,554,260	7,079,260
2030 to 2031	<u>2,625,000</u>	<u>204,455</u>	<u>2,829,455</u>
	<u>\$18,570,000</u>	<u>\$12,463,385</u>	<u>\$31,033,385</u>

NEOSHO MEMORIAL REGIONAL MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2009 and 2008

NOTE E - LONG-TERM DEBT AND CAPITAL LEASES - Continued

The following is a yearly schedule of future minimum lease payments under capital leases as of December 31, 2009:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$30,000	\$2,250	\$32,250
2011	30,000	1,500	31,500
2012	<u>29,326</u>	<u>750</u>	<u>30,076</u>
Total minimum lease payments	<u>\$89,326</u>	<u>\$4,500</u>	93,826
Less amounts representing interest			<u>4,500</u>
Present value of net minimum lease payments			<u>\$89,326</u>

Total interest costs are summarized as follows:

	<u>2009</u>	<u>2008</u>
Total interest incurred	\$914,355	\$934,581
Amortization of deferred financing costs	27,831	24,384
Amortization of premium	<u>(1,013)</u>	<u>(1,038)</u>
	941,173	957,927
Less capitalized interest	<u>(153,076)</u>	<u>(903,298)</u>
	<u>\$788,097</u>	<u>\$ 54,629</u>

NOTE F - RELATED PARTY TRANSACTIONS

The Medical Center contracts for management services, services of certain management personnel and other services with QHR. Under the agreement, QHR is responsible for daily management and administration of the Medical Center, with ultimate control over the assets and operations of the Medical Center retained by the Medical Center's board. Amounts paid to QHR during 2009 and 2008, for management services were \$241,970 and \$234,223, respectively. The Medical Center also reimbursed QHR for salaries, employee benefits and expenses of the chief executive officer and the chief financial officer (Note A1).

The Neosho Memorial Regional Medical Center Foundation, Inc., provides support to the Medical Center. During the years 2009 and 2008, there were not any transactions that were considered to be significant between the Medical Center and the Foundation.

The Foundation's total assets are approximately \$430,000 as of December 31, 2009. Management does not consider the Foundation's net assets to be significant in relation to the Medical Center.

NEOSHO MEMORIAL REGIONAL MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2009 and 2008

NOTE F - RELATED PARTY TRANSACTIONS - Continued

The County occasionally donates ambulances to replace aging vehicles in the fleet. In 2009, the County donated one ambulance with a value of \$122,320. No ambulances were donated in 2008.

NOTE G - RETIREMENT PLAN

The Medical Center sponsors a defined contribution plan (Plan) as authorized by Kansas statutes. A defined contribution pension plan provides pension benefits in return for services rendered, provides an individual account for each participant, and specifies how contributions to the individual's account are to be determined instead of specifying the amount of benefits the individual is to receive. Under a defined contribution pension plan, the benefits a participant will receive depend solely on the amount contributed to the participant's account, the returns earned on investments of those contributions, and forfeitures of other participants' benefits that may be allocated to such participant's account.

The Plan covers substantially all employees of the Medical Center. Employees are eligible immediately to make contributions to the Plan. To become eligible for contributions made by the Medical Center, the employee must have a year of service, defined as 1,000 hours. Contributions made by the employees vest immediately and contributions made by the Medical Center vest over six years. An employee who leaves the employment of the Medical Center is paid subject to the terms of the individual annuity contract. An employee who retires must begin receiving benefits no later than April 1st of the calendar year following the year in which the participant attains age 70 1/2.

The Medical Center provides for a discretionary match to be determined every year by the Medical Center's Board of Trustees. For the years ended December 31, 2009 and 2008, the Medical Center matched 100 percent of each eligible employee's contribution up to 5 1/2 percent of the participant's compensation. Forfeitures are used to reduce future employer contributions.

The payroll for employees covered by the Plan for the years ended December 31, 2009 and 2008, was \$8,384,250 and \$7,700,467, respectively. The total payroll was \$14,096,308 in 2009 and \$12,838,913 in 2008. Total contributions to the Plan in 2009 were \$949,964 which consisted of \$549,593 of employee contributions and \$400,371 of employer matching contributions. Total contributions to the Plan in 2008 were \$912,431 which consisted of \$527,571 of employee contributions and \$384,860 of employer matching contributions.

No pension provision changes occurred during the year that affected the required contributions to be made by the Medical Center or its employees. The Plan held no securities of the Medical Center or other related parties during the year or as of the close of the year.

Total employer contributions in 2009 were 4.8 percent of covered payroll and in 2008 were 5.0 percent of covered payroll. Total employee contributions in 2009 were 6.6 percent of covered payroll and in 2008 were 6.9 percent of covered payroll.

NEOSHO MEMORIAL REGIONAL MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2009 and 2008

NOTE H - DEPOSITS AND INVESTMENTS WITH FINANCIAL INSTITUTIONS

Kansas statutes authorize the Medical Center with certain restrictions, to deposit or invest in open accounts, time deposits, certificates of deposit, repurchase agreements, U.S. Treasury bills and notes and the State Treasurer's investment pool. Also, statutes require that financial institutions pledge securities with a market value equal to total deposits in excess of F.D.I.C. coverage at any given time and the securities pledged be deposited with a Kansas state or national bank or trust company, the Federal Reserve Bank, or the Federal Home Loan Bank.

The carrying amount of the Medical Center's deposits with financial institutions was \$5,885,757 and the bank balance was \$6,142,516 at December 31, 2009. The bank deposits are categorized as follows at December 31, 2009:

Amount insured by the F.D.I.C., or collateralized with securities held by the Medical Center in its name	\$1,000,000
Uncollateralized (collateralized with securities held in safekeeping under joint custody receipt by an authorized depository other than the pledging financial institution's trust department, but not in the Medical Center's name)	5,142,516
	<u>\$6,142,516</u>

NOTE I - COMMITMENTS AND CONTINGENCIES

In addition to the risk disclosed elsewhere in these financial statements and notes thereto, the Medical Center is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Medical Center purchases commercial insurance for these risks. Settled claims have not exceeded this commercial coverage in any of the past three years.

NOTE J - CONCENTRATION OF CREDIT RISK

The Medical Center is located in Chanute, Kansas. The Medical Center grants credits without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors is as follows:

	<u>2009</u>	<u>2008</u>
Medicare	37%	36%
Medicaid	8	16
Blue Cross	13	12
Commercial insurance	23	16
Workers' compensation	1	2
Self-pay	<u>18</u>	<u>18</u>
	<u>100%</u>	<u>100%</u>

NEOSHO MEMORIAL REGIONAL MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2009 and 2008

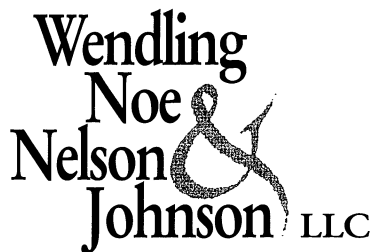
NOTE K - MEDICAL MALPRACTICE INSURANCE

For the years ended December 31, 2009 and 2008, the Medical Center was insured for professional liability under a comprehensive hospital liability policy provided by an independent insurance carrier with limits of \$200,000 per occurrence up to an annual aggregate of \$600,000 for all claims made during the policy year. The Medical Center is further covered by the Kansas Health Care Stabilization Fund for claims in excess of its comprehensive hospital liability policy up to \$800,000 pursuant to any one judgment or settlement against the Medical Center for any one party, subject to an aggregate limitation for all judgments or settlements arising from all claims made in the policy year in the amount of \$2,400,000. The policy provided by the independent insurance carrier provides for umbrella liability in excess of the underlying limits set forth above in the amount of \$5,000,000 per occurrence with an aggregate amount in any policy year of \$5,000,000. All coverage is on a claims-made basis. The above policies were renewed on January 1, 2010, for the policy period from January 1, 2010 to January 1, 2011. Management believes that any claims asserted for incidents occurring through December 31, 2009, would be settled within the limits of insurance coverage.

NOTE L - SUBSEQUENT EVENTS

Management has evaluated all subsequent events through April 1, 2010, the date the financial statements were available to be issued.

SUPPLEMENTAL INFORMATION



Certified Public Accountants
and Management Consultants

Brian J. Florea, CPA
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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS
ON SUPPLEMENTAL INFORMATION

Board of Trustees
Neosho Memorial Regional Medical Center

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole of Neosho Memorial Regional Medical Center for the years ended December 31, 2009 and 2008, which are presented in a preceding section of this report. The supplemental information presented hereinafter is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplemental information presented on pages 25 through 29 has been subjected to the audit procedures applied in the audit of the basic financial statements. In our opinion, the supplemental information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Wendling Noe Nelson & Johnson LLC

Topeka, Kansas
April 1, 2010

NEOSHO MEMORIAL REGIONAL MEDICAL CENTER

ACCOUNTS RECEIVABLE

Year ended December 31,

Aging of accounts receivable, based on date of discharge, is as follows:

Aging	Amounts		Percent	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
Current	\$ 5,689,128	\$ 5,646,206	45.3%	43.4%
31 to 60 days	2,851,354	2,091,570	22.7	16.1
61 to 120 days	2,477,098	2,389,136	19.7	18.4
Over 120 days	<u>1,547,146</u>	<u>2,872,519</u>	<u>12.3</u>	<u>22.1</u>
	12,564,726	12,999,431	<u>100.0%</u>	<u>100.0%</u>
Less allowance for contractual adjustments	5,511,559	5,148,238		
Less allowance for uncollectible accounts	<u>1,718,140</u>	<u>2,614,073</u>		
	<u>\$ 5,335,027</u>	<u>\$ 5,237,120</u>		

Changes in the allowance for uncollectible accounts are as follows:

	<u>2009</u>	<u>2008</u>
Balance at beginning of year	\$2,614,073	\$2,030,352
Provisions for bad debts	4,517,260	4,351,496
Collections of accounts previously charged off	<u>1,362,846</u>	<u>1,081,502</u>
	8,494,179	7,463,350
Accounts charged off	<u>6,776,039</u>	<u>4,849,277</u>
Balance at end of year	<u>\$1,718,140</u>	<u>\$2,614,073</u>

NEOSHO MEMORIAL REGIONAL MEDICAL CENTER

PATIENT SERVICE REVENUE

Year ended December 31,

	2009		2008	
	Patient service revenue	% of gross patient service revenue	Patient service revenue	% of gross patient service revenue
Inpatient services				
Daily patient care				
Acute care	\$ 5,300,785	6.6%	\$ 5,595,135	8.0%
Skilled nursing care	186,324	0.2	80,880	0.1
Intensive care	1,353,736	1.7	1,291,780	1.9
Nursery	515,402	0.6	511,200	0.7
Operating room	1,156,990	1.4	1,285,937	1.8
Recovery	197,678	0.2	202,915	0.3
Delivery and labor room	820,082	1.0	738,715	1.1
Medical and surgical supplies	2,524,303	3.2	2,722,832	3.9
Emergency	428,561	0.5	311,792	0.4
Laboratory	4,187,478	5.3	3,879,326	5.7
Electrocardiology	169,473	0.2	166,377	0.2
Radiology, nuclear medicine, ultrasound, and CT scans	2,667,730	3.3	2,783,668	4.0
Pharmacy	3,531,997	4.5	4,075,169	5.9
Anesthesiology	29,375		34,589	
Respiratory therapy	1,805,213	2.3	1,676,059	2.4
Physical therapy	243,770	0.3	208,110	0.3
Electroencephalography	2,420		946	
Speech therapy	153,250	0.2	63,894	0.1
Cardiac rehabilitation	1,650		153	
Ambulance	5,859		36	
	<u>25,282,076</u>	<u>31.5</u>	<u>25,629,513</u>	<u>36.8</u>

NEOSHO MEMORIAL REGIONAL MEDICAL CENTER

PATIENT SERVICE REVENUE - CONTINUED

Year ended December 31,

	2009		2008	
	Patient service revenue	% of gross patient service revenue	Patient service revenue	% of gross patient service revenue
Outpatient services				
Observation	\$ 2,820,767	3.6	\$ 1,783,475	2.7%
Operating room	4,605,526	5.8	3,691,376	5.3
Recovery room	1,482,909	1.9	1,137,555	1.6
Delivery and labor room	278,228	0.3	227,150	0.3
Medical and surgical supplies	4,633,859	5.8	3,722,354	5.3
Emergency	4,863,799	6.1	3,873,089	5.6
Laboratory	6,865,827	8.6	4,895,903	7.0
Electrocardiology	488,204	0.6	346,411	0.5
Radiology, nuclear medicine, ultrasound, and CT scans	17,568,431	22.0	14,021,178	20.1
Pharmacy	2,792,963	3.5	3,228,772	4.6
Anesthesiology	88,755	0.1	60,584	0.1
Respiratory therapy	691,830	0.9	566,210	0.8
Physical therapy	1,734,160	2.2	1,539,057	2.2
Electroencephalography	819,113	1.0	716,906	1.0
Speech therapy	891,192	1.1	1,008,927	1.4
Cardiac rehabilitation	437,711	0.5	350,383	0.5
Home health	1,025,926	1.3	1,187,455	1.7
Hospice	437,604	0.5	278,822	0.4
Ambulance	1,801,844	2.3	1,458,842	2.1
Social services	10,799		8,966	
Womens clinic	335,643	0.4		
Specialty clinic	12,450			
	<u>54,687,540</u>	<u>68.4</u>	<u>44,103,415</u>	<u>63.2</u>
Gross patient service revenue	79,969,616	100.0	69,732,928	100.0
Adjustments to patient service revenue				
Contractual adjustments	40,641,295	50.8	33,251,029	47.7
Medicaid DSH payments	(820,480)	(1.0)	(967,902)	(1.4)
Charity and other	1,188,323	1.5	1,960,031	2.8
Provision for bad debts	4,517,260	5.6	4,351,496	6.2
Net patient service revenue	<u>\$34,443,218</u>	<u>43.1%</u>	<u>\$31,138,274</u>	<u>44.7%</u>

NEOSHO MEMORIAL REGIONAL MEDICAL CENTER
OPERATING EXPENSES BY FUNCTIONAL DIVISION
Year ended December 31,

	2009			2008		
	Salaries and other wages	Supplies and expenses	Total	Salaries and other wages	Supplies and expenses	Total
Routine services						
Nursing administration	\$ 840,741	\$ 90,840	\$ 931,581	\$ 819,349	\$ 63,402	\$ 882,751
Acute care and nursery	2,444,247	345,684	2,789,931	2,421,460	533,481	2,954,941
Intensive care	636,343	76,783	713,126	596,039	97,304	693,343
	<u>3,921,331</u>	<u>513,307</u>	<u>4,434,638</u>	<u>3,836,848</u>	<u>694,187</u>	<u>4,531,035</u>
Ancillary services						
Medical and surgical supplies	89,994	1,472,328	1,562,322	83,704	1,239,502	1,323,206
Observation	609,406	74,195	683,601	538,881	112,641	651,522
Central sterile	35,821	83,751	119,572	33,643	67,466	101,109
Laboratory	688,009	936,494	1,624,503	653,040	803,416	1,456,456
Electrocardiology	11,148	1,504	12,652	8,869	1,224	10,093
Radiology, nuclear medicine, ultrasound, and CT scans	919,470	907,178	1,826,648	871,880	777,256	1,649,136
Pharmacy		1,555,821	1,555,821		1,546,440	1,546,440
Operating and recovery room	544,097	725,474	1,269,571	536,813	407,887	944,700
Anesthesiology		132,146	132,146		131,908	131,908
Delivery and labor		4,726	4,726		18,125	18,125
Emergency	1,531,566	376,814	1,908,380	1,252,182	381,502	1,633,684
Ambulance	628,632	90,912	719,544	591,434	95,769	687,203
Physical therapy		900,724	900,724		857,672	857,672
Respiratory therapy	429,308	101,059	530,367	417,073	87,899	504,972
Electroencephalography	27,233	29,606	56,839	28,270	53,370	81,640
Home health and hospice	453,467	199,772	653,239	423,405	143,323	566,728
Social service		7,547	7,547		6,346	6,346
Lifeline		50,573	50,573		53,238	53,238
Speech therapy	206,906	126,433	333,339	174,605	70,923	245,528
Cardiac rehabilitation	81,068	9,262	90,330	80,610	8,291	88,901
Specialty clinic	18,331	13,558	31,889			
Womens clinic	283,620	58,031	341,651			
	<u>6,558,076</u>	<u>7,857,908</u>	<u>14,415,984</u>	<u>5,694,409</u>	<u>6,864,198</u>	<u>12,558,607</u>

NEOSHO MEMORIAL REGIONAL MEDICAL CENTER
OPERATING EXPENSES BY FUNCTIONAL DIVISION - CONTINUED
Year ended December 31,

	2009			2008		
	Salaries and other wages	Supplies and expenses	Total	Salaries and other wages	Supplies and expenses	Total
General services						
Administrative and general						
Administration	\$ 524,071	\$ 497,636	\$ 1,021,707	\$ 460,815	\$ 487,247	\$ 948,062
Business office	253,768	407,617	661,385	238,333	310,740	549,073
Communications	122,335	170,464	292,799	119,405	207,332	326,737
Data processing	238,107	429,255	667,362	198,821	465,150	663,971
Accounting	193,913	88,519	282,432	202,244	83,362	285,606
Patient transportation	51,640	12,714	64,354	44,009	18,314	62,323
Insurance		265,709	265,709		220,755	220,755
Admissions and switchboard	434,735	35,024	469,759	361,750	29,629	391,379
Printing	23,143	13,175	36,318	23,027	12,691	35,718
Resident House		11,473	11,473		10,765	10,765
Employee health and welfare	297,836	3,128,170	3,426,006	265,009	2,875,962	3,140,971
Dietary	336,124	560,231	896,355	282,858	550,800	833,658
Plant operation and maintenance	235,112	1,163,437	1,398,549	230,278	1,257,304	1,487,582
Rehab and fitness center		25,076	25,076		33,023	33,023
Purchasing	113,317	162,775	276,092	107,357	71,379	178,736
Housekeeping	285,096	150,123	435,219	270,118	145,461	415,579
Laundry and linen		205,891	205,891		197,636	197,636
Medical records	325,024	249,964	574,988	319,082	126,752	445,834
Continuing education	182,681	48,225	230,906	184,550	48,488	233,038
	<u>3,616,902</u>	<u>7,625,478</u>	<u>11,242,380</u>	<u>3,307,656</u>	<u>7,152,790</u>	<u>10,460,446</u>
Depreciation and amortization	-	2,716,225	2,716,225	-	1,610,624	1,610,624
	<u>\$14,096,309</u>	<u>\$18,712,918</u>	<u>\$32,809,227</u>	<u>\$12,838,913</u>	<u>\$16,321,799</u>	<u>\$29,160,712</u>